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Managing Director*

November 30, 2007

Dr. Russell Read  
Chief Investment Officer  
California Public Employees' Retirement System  
400 Q Street  
Sacramento, CA 95814

Re: Revision of Dollar Denominated Fixed Income Program Policy

Dear Russell,

You requested Wilshire's opinion with respect to Staff's proposed changes to the Dollar Denominated Fixed Income Program Policy (the "Policy"). Wilshire worked with Staff in developing these revisions and had several minor issues where we requested additional clarifying language. Staff agreed with our proposed changes and they are incorporated into this Policy. Wilshire has evaluated the proposed Policy in its entirety and recommends that the Policy Subcommittee approve the revisions.

There are three main changes in the Policy: 1) incorporation of the updated Opportunistic limits approved by the Investment Committee, 2) incorporation of the shorting elements approved by the Investment Committee and, 3) administrative changes to simplify the Policy. As Staff has noted in their agenda item, the Policy was not revised into the new policy format but that will occur at the February Policy Subcommittee meeting.

First, Section VI, C, 2 updates the policy to include the higher Opportunistic limits approved by the Investment Committee earlier this year – non-investment grade corporate bonds are limited to 15% of the portfolio, non-investment grade mortgage bonds are limited to 10% of the portfolio and non-investment grade sovereign bonds are limited to 5% of the portfolio. However, the total Opportunistic sector is limited to no more than 20% of the portfolio and the target remains at 3%.

Second, Section IX governs the use of shorting in the portfolio, as has also been previously approved by the Investment Committee. Staff intends to use this on an opportunistic basis and has limited shorting to 5% of the investment grade corporate bond portfolio, 5% of the investment grade sovereign bond portfolio, and 2% of the investment grade mortgage bond portfolio as was specified in its original request to the Investment Committee. Shorting may be implemented on a name specific basis through credit

default swaps or against a basket of securities using CDX. Leverage is also specifically prohibited. Wilshire has discussed these risk controls with Staff and, as we noted in our opinion letter to the Investment Committee in June, feel that the risks of shorting are well-known by Staff and have been appropriately addressed within this policy. Wilshire supports this revision.

Last, there are several small administrative changes, such as making the Foreign Debt Policy an attachment to this Policy and clarifying language regarding investment grade and non-investment grade securities in the various fixed income sectors. As these changes make the Policy more user-friendly, Wilshire supports these revisions.

In conclusion, Wilshire supports Staff's recommended changes. Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in black ink, appearing to read "Alan Jinn". The signature is fluid and cursive, with the first name "Alan" and last name "Jinn" clearly distinguishable.